



# STATE OF COLORADO

# GENERAL SUPPORT SERVICES OFFICE OF THE STATE CONTROLLER

1525 Sherman Street, Suite 250 Denver, Colorado 80203 Phone: (303) 866-3281 Fax: (303) 866-4233



Bill Owens Governor

Department of Personnel Larry E. Trujillo, Sr. Executive Director

Arthur L. Barnhart State Controller

November 4, 1999

To the Citizens, Governor, and Legislators of the State of Colorado

It is our privilege to present the Comprehensive Annual Financial Report (CAFR) on the operations of the State of Colorado for the fiscal year ended June 30, 1999. This report is prepared by the Office of the State Controller and is submitted as required by Colorado Revised Statutes 24-30-204. The state controller is responsible for managing the finances and financial affairs of the state and is committed to sound financial management and governmental accountability.

We believe the financial statements are fairly presented in all material aspects. They are presented in a manner designed to set forth the financial position, results of operations, and changes in fund balances of the various fund types. All required disclosures have been included to assist the members of the General Assembly, the financial community, and the public in understanding the state's financial affairs.

The financial statements contained in the CAFR are prepared in conformity with generally accepted accounting principles applicable to government as prescribed by the Governmental Accounting Standards Board (GASB), and are audited by the state auditor of Colorado. In addition to the general purpose financial statements, the CAFR includes: combining financial statements, presenting information by fund category; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial, economic, and demographic data about the state.

The funds and entities included in the CAFR are those for which the state is financially accountable based on criteria for defining the financial reporting entity prescribed by GASB. The primary government is the legal entity that comprises the funds and account groups of the state, its departments, agencies, and state funded institutions of higher education. It also includes certain university foundations that have been included with the institution that is financially accountable for the foundation.

The state's elected officials are financially accountable for legally separate entities that qualify as component units. Financial results of the state's component units are discretely presented in the financial statements. The following entities qualify as component units of the state.

Colorado Uninsurable Health Insurance Plan Colorado Water Resources and Power Development Authority Denver Metropolitan Major League Baseball Stadium District University of Colorado Hospital Authority Colorado Travel and Tourism Authority

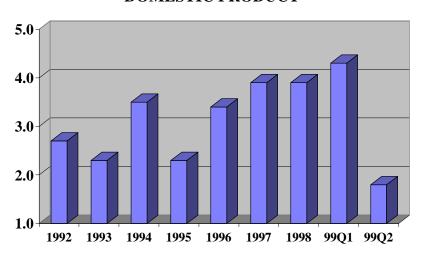
Additional information about these component units and other related entities is presented in this report in Note I-A of the footnotes to the general purpose financial statements. Audited financial reports are available from each of these entities.



# ECONOMIC CONDITION AND OUTLOOK

In order to carry out budget formulation, the Office of State Planning and Budgeting (OSPB) estimates state revenues. In preparing those revenue estimates, OSPB analyzes the national and state economic conditions. The following synopsis is largely based on OSPB's analysis in the Colorado Economic Perspective that is dated September 20, 1999.

# PERCENT CHANGE IN REAL GROSS DOMESTIC PRODUCT



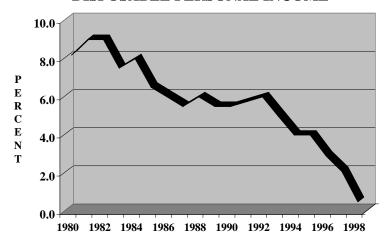
Thus far in 1999, the national economy has grown at unprecedented rates for this late stage of an economic expansion. The U.S. Department of Commerce reported that real gross domestic product (GDP), the output of goods and services produced in the United States, increased at an annual rate of 1.9 percent in the second quarter of 1999. followed a first quarter increase in real GDP at an annual rate of 4.3 percent. The increase in GDP was driven mainly by personal consumption expend-

itures and durable equipment investment, but was reduced by an increase in imports and a decrease in inventory investment. Two Federal Reserve rate increases in the summer of 1999 resulted in higher interest rates that have now begun to dampen interest-rate-sensitive sectors and are beginning to slow the economy down.

Consumer spending continues to bolster economic activity, due in part to spending in excess of earnings. In addition, the strong performance of the stock market has encouraged spending by consumers. Personal savings as a percent of disposable personal income fell to 0.5 percent in 1998. In the second quarter of 1999, the personal savings rate was negative at -1.3 percent of disposable personal income.

Business equipment spending is now at an historically high share of GDP. Durable equipment purchases have

# PERSONAL SAVINGS AS A PERCENT OF DISPOSABLE PERSONAL INCOME



grown at an average rate of 11.2 percent between 1992 and 1998, and they continued to grow in 1999 at 9.5 and 15.9 percent for the first and second quarter respectively.

In the second quarter of 1999, the trade deficit was \$80.7 billion – requiring nearly \$1 billion a day of new foreign money to flow into the United States. At this rate, the annual trade deficit will be approximately \$337 billion, which represents a 38% increase in the annual trade deficit over the same period in 1998. Federal Reserve Chairman Alan Greenspan has described this consumption increase as a reduction of private savings that may in the future limit the nation's ability to finance investment in new productive plants, equipment, and housing.

The anticipated slowing of the economy has not yet resulted in significant increases in business inventories. In 1998, the change in business inventories declined \$5.8 billion from the prior year. In both the first and second quarters of 1999, the increase in inventories continued to decline. Thus, unsold production is not contributing to the strength in the GDP.

OSPB has made the following predictions for the national economy supporting its Colorado economic forecast.

- Inflation-adjusted GDP growth is expected to maintain the robust 3.9 percent rate experienced in 1998, and then to taper off in 2000 to a more moderate 2.4 percent.
- Consumer spending growth will slow in 2000 and 2001 due to a weakening stock market.
- The overall inflation rate is expected to rise to 2.2 percent in 1999 increasing to 2.5 percent by 2005.
- Nonagricultural employment growth will slow to 2.1 percent in 1999 and slow further to 1.5 percent in 2000 and 2001.
- The unemployment rate which is expected to drop from 4.5 percent in 1998 to 4.2 percent in 2000 and 2001 will slowly increase to 4.9 percent by 2004 as the national economy cools.
- Business and government investment in remediating the Year 2000 computer and embedded chip problem will stimulate growth throughout 1999 but will result in slower percentage growth in 2000 as these investments end.
- The U.S. trade deficit is expected to continue to deteriorate into 2000.

OSPB hedges these predictions noting that the primary short-term risk to continued economic expansion is that the stock market is overvalued and could decline significantly because of sagging international economies. The direction of the national economy has become more important to Colorado's economic health as the local economy diversifies.

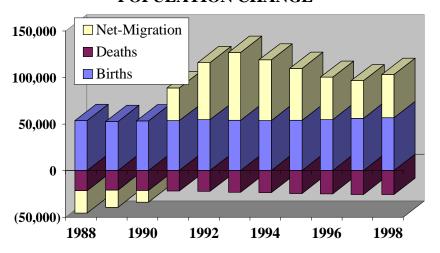
The Colorado economy displayed slightly slower growth in early 1999 than in prior years. Employment growth slowed through July 1999, although the unemployment rate thus far in 1999 is lower than in 1998. Inflation remained low through June 1999, although the Denver-Boulder rate was higher than the national average. Single family home construction and nonresidential building are thriving even though the 5.2 percent inflation in housing prices was greater than inflation in all other sectors including medical care.

OSPB expects a general slowing in the Colorado economy. The primary contributing factors include scarcity of labor, a higher cost environment, and a slowdown in the construction industry. Colorado's seasonally-adjusted unemployment rate was 3.0 percent through July 1999, following a 3.3 percent unemployment rate in 1997 and a 3.8 percent unemployment rate in 1998. Without a significant unemployment pool, increases in employment must come from in-migration and natural population growth. Net-migration is significant in relation to natural population growth, and it

increased in 1998. However, the population increase was inadequate to prevent the labor scarcity, which is particularly acute in the qualified labor pool. Such population changes also bring undesirable side effects, such as, traffic congestion that prompted the borrowing proposal discussed below in the Major Government Initiatives section.

Construction has been the backbone of Colorado's booming economy during much of the decade. In 1998, construction

# COMPONENTS OF COLORADO'S POPULATION CHANGE



employment increased 10.8 percent while construction wages increased 16.7 percent. According to F.W. Dodge, the total number of residential construction permits increased by 13.2 percent through July 1999 compared with the same period through July 1998. Significant increases also occurred in the quantity and resale prices of existing homes. Average resale price of an existing home increased 10.8 percent from July 1998 to July 1999.

The scarcity of labor and increased housing and other costs have caused OSPB to temper their Colorado economic forecast as follows:

- Nonfarm employment growth will slow to a 3.1 percent increase in 1999 and 2.8 percent in 2000 due to lack of available workers rather than reductions in demand for goods.
- The Denver-Boulder inflation rate will trend up from 2.9 percent in 1999 to 3.5 in 2004.
- Personal income will moderate from the 1998 increase of 8.2 percent to 6.9 percent in 1999.
- In 1999, construction employment will grow 7.4 percent and decrease to around 1.5 percent growth by 2004.
- The value of residential construction will decrease by 0.6 percent in 1999 while the value of nonresidential construction will rebound with growth of 23 percent after declining a similar amount in 1998.
- Service employment will grow 3.5 percent and 3.8 percent in 1999 and 2000 respectively, after growing 4.5 percent in 1998.

In summarizing the forecast, OSPB noted the following:

In the past few years, much of the strong growth in Colorado's economy resulted from the many firms that decided to locate or expand their facilities in Colorado because of the state's low cost structure. However, Colorado's ability to attract new business is moderating because of the scarcity of labor and increased costs. Whereas Colorado once had an abundance of both skilled and unskilled labor at relatively low wages, low real estate costs, and an overall low cost of living, the strong economy has neutralized these benefits. Indeed, between 1990 and 1998, wages have risen 86.2 percent, residential housing costs are up over 100 percent, and office rents in the Denver metro

area have increased 65.2 percent. As a result, Colorado's competitive low-cost advantage has eroded. Without a readily available labor pool and an amenable cost environment, Colorado's benefits to relocating firms has diminished, thus contributing to slower future growth.

### YEAR 2000 PREPARATIONS

The state currently has initiatives underway to address the potential impact the Year 2000 problem could have on the information technology of the state. This problem is the result of many of the state's existing information technology applications and embedded systems having a two-digit year indicator but not a century indicator. The state has no control over the Year 2000 remediation efforts of major service providers of the state. It is possible, therefore, that even if the state were fully Year 2000 compliant, service providers of the state could adversely affect the state's business. Thus, the state is unable to provide any assurances, guarantees or warranties regarding Year 2000 matters. A summary of the state's Year 2000 preparations is included in the supplementary information section required by the Governmental Accounting Standards Board on page 91. Progress information can be viewed on the state's web site at www.state.co.us/Year2000.

# MAJOR GOVERNMENT INITIATIVES

The General Assembly enacted several permanent tax reductions to address the collection of excess revenues under Article X Section 20 (TABOR) of the State Constitution. The most significant change reduced the income tax rate from 5 percent to 4.75 percent, and the Office of State Planning and Budgeting (OSPB) expects the change to reduce revenue by \$202.2 million in Fiscal Year 1999-00. Other changes include the elimination of the marriage penalty, an increase in the elderly pension exemption, a credit for long-term care insurance premiums, an adjustment to the inclusion of foreign source corporate income, and a credit for qualified donations of conservation easements. In total, OSPB projects that these changes will reduce revenue by \$18.1 million in Fiscal Year 1999-00. Several products were exempted from sales and use taxes, and increases in tonnage exemptions will reduce severance tax. OSPB estimates these two items together will reduce Fiscal Year 1999-00 revenue by \$13.1 million.

In the fall of recent years, the legislature has convened in special session to determine how the state would refund TABOR excess revenues. However, in the 1999 regular session, the General Assembly enacted mechanisms to refund Fiscal Year 1998-99 and subsequent years' excess revenue. Each of the mechanisms has an excess revenue threshold that makes it applicable. The mechanisms include:

- An earned income tax credit, estimated to refund \$29.5 million dollars in the first fiscal year,
- A refund of various state business taxes for businesses paying local personal property tax, estimated to refund \$100 million in the first year, and
- A sales tax refund expected to distribute the remaining \$550.1 million of excess TABOR revenues. This refund is a fixed amount for each of six tiers of federal adjusted gross income. The Department of Revenue calculates the amount of the individual refund for each tier as a statutory percentage of the total sales tax refund divided by the number of anticipated taxpayers in each tier.

	Total Sales Tax		
	Tier	Refund Individual	
Federal Adjusted Gross Income	Percentage	(in Thousands) Refund	
0-25,000	25	\$ 137,533.5 \$ 159	
25,001-50,000	23	126,530.8 212	
50,001-75,000	19	104,525.5 244	
75,001-100,000	12	66,016.1 290	
100,001-125,000	6	33,008.0 312	
125,001 and Greater	15	82,520.1 502	
Totals	100	\$ 550,134.0	

The General Assembly also modified selected capital gains rules and enacted a limited exemption of dividend, interest, and capital gains income for Fiscal Year 2000-01 and subsequent years.

Based on the governor's proposal, the General Assembly submitted a ballot question for the November 1999 statewide election to determine if the state can issue revenue anticipation notes of \$1.7 billion to fund accelerated transportation projects. The borrowing would result in a maximum \$2.3 billion repayment cost to be paid from anticipated federal transportation funds. In addition, the state continued the diversion of 10% of sales tax receipts from the General Fund to the Highway Fund. During Fiscal Year 1998-99, the state diverted \$170.4 million to the Highway Fund.

The General Assembly authorized the state treasurer to issue approximately \$175 million of state pension-obligation notes. The proceeds will be used to make a lump sum payment to the Fire and Police Pension Association in lieu of the state's annual contribution through 2009. Earnings on the lump sum payment in excess of the state's annual contribution amount will revert to the state when the unfunded actuarial liabilities of the old-hire pension funds are met. Annual appropriations will fund the debt service of the notes.

The State of Colorado participated in a multi-state suit against tobacco companies to recover state expenditures related to smoking illnesses. The General Assembly created a fund in which to deposit proceeds from Colorado's portion of the multi-billion dollar settlement. The state has not received any monies from the settlement, and the legislature has considered but has taken no action regarding the use of the tobacco settlement funds.

### **BUDGETARY CONTROLS AND ACCOUNTING SYSTEMS**

The annual budget of the state for ongoing programs, except for federal and custodial funds, is enacted by the General Assembly. New programs are funded for the first time in the enabling legislation and continued through the Long Appropriations Act in future periods. For the most part, appropriations lapse at the end of the fiscal year unless the state controller approves an appropriation roll-forward required by extenuating circumstances. Capital construction appropriations are normally effective for three years.

The state records the budget in its accounting system along with federal awards and custodial funds of the various departments. Encumbrances are also recorded and result in a reduction of the budgeted spending authority. Encumbrances represent the estimated amount of expenditures that will be incurred when outstanding purchase orders, contracts, or other commitments are fulfilled. Open encumbrances in the General Fund are not reported as a reservation of fund balance unless the related appropriations are

approved for roll-forward to the subsequent fiscal year. Fund balance is reserved for open encumbrances that represent legal or contractual obligations in the Capital Projects Fund and the Department of Transportation's portion of the Special Revenue Fund.

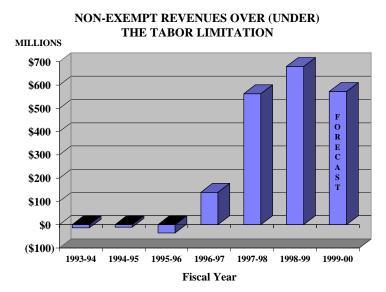
The state's financial records for governmental type funds are accounted for on a modified accrual basis with the revenues recorded when available and measurable, while expenditures are recorded when goods or services are received or a liability is expected to be liquidated from current available resources. The state maintains proprietary and fiduciary fund type accounting records on the full accrual basis. That is, revenues are recorded when earned, and expenses, including depreciation, are recorded when incurred.

In developing the state's accounting system, consideration has been given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition. Those controls also assure the reliability of financial records for preparing financial statements and maintaining the accountability for assets.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from that control. The evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework. We believe that the state's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### FINANCIAL OVERVIEW

Fiscal Year 1998-99 is the sixth year of state operations under the TABOR revenue limitations (Article X, Section 20 of the state's constitution). With certain exceptions, the rate of growth of state revenues is limited to the combination of the percentage change in the state's population and inflation based on the



Denver-Boulder CPI-Urban index. The exceptions include federal funds, gifts and donations, sales of property, refunds, damage recoveries, and transfers.

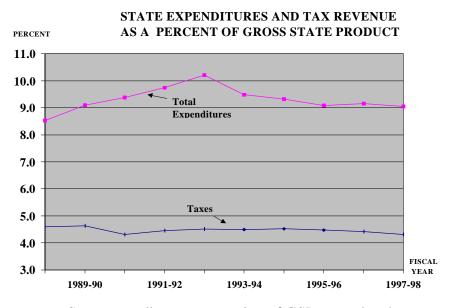
Revenues collected in excess of the limitation must be returned to the citizens unless a vote at the annual election in November allows the state to retain the surplus. TABOR also limits the General Assembly's ability to raise taxes and borrow money. With the exception of a declared emergency, taxes can only be raised by a vote of the people at the annual election. Multiple

year borrowings can only be undertaken after approval by a vote of the people at the annual election.

In the first three years of operation under TABOR, the state did not exceed the revenue limitation. In Fiscal Years 1998-99, 1997-98, and 1996-97, state revenues exceeded the TABOR limitation by \$679.6,

\$563.2, and \$139.0 million, respectively. The state recorded a liability in the General Fund at June 30 for these amounts in each fiscal year. See Note II-D Tax, Spending, and Debt Limitations in the notes to the financial statements for additional details.

Notwithstanding the tax reductions discussed above, the Office of State Planning and Budgeting forecasts larger revenues than the TABOR amendment allows. It should be noted that the Fiscal Year 1999-00 TABOR revenue limitation is 4.5 percent below the pre-refund actual revenues for Fiscal Year 1998-99.



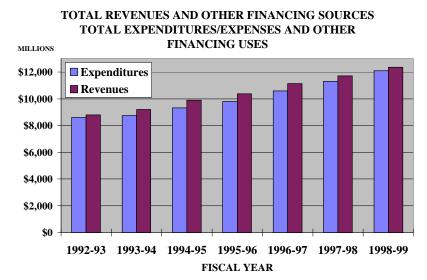
**TABOR** controls state by limiting revenues their growth to the sum of inflation plus population increases. If, however, the state's economy grows at a rate above the percentage change in inflation and population then state revenues would contract as a percentage of the Gross State Product (GSP). The chart at left shows the trend of state expenditures and tax revenues as a portion of GSP. chart demonstrates several important points:

- State expenditures as a portion of GSP expand and contract even when tax revenues remain stable.
- Over the period covered by the graph state tax revenues have remained between 4.31 and 4.63 percent of GSP. Federal revenues, which are primarily grants, and cash revenues, which are primarily exchanges for goods or services, funded most of the variation in state expenditures.
- The increase in total expenditure percentage between 1989 and 1993 was primarily the result of healthcare inflation under the Medicaid mandate and distributions to school districts to relieve local property tax burdens. The former was funded partially by federal revenue and partially by general-purpose tax revenue, while the latter was funded primarily by general-purpose tax revenues. Neither required a tax increase.
- General tax revenue at 4.31 percent of GSP is at its lowest level in the period covered by the chart.

We anticipate that state tax revenues will continue to decline relative to the GSP as long as the state's economy continues its expansion. If the economy were to contract abruptly, state revenues could rise as a percentage of the GSP in the short term. However, without a tax increase or retention of the TABOR surplus (both require a vote of the people), the long-term trend would remain downward.

The current combined balance sheet for the state's primary government shows total assets of \$13,132 million and liabilities of \$3,942 million. Under current accounting principles, this difference of \$9,190 million is the financial equity that the citizens of Colorado have in their state government. The state's

current accounting practices do not include the recording of infrastructure on the state's books. Thus, the recorded equity is exclusive of such assets as highways, bridges, and parks. Similarly, there is no recording of the estimated cost to maintain those assets.



Total revenues and other financing sources for the primary government, excluding operating transfers-in and excess TABOR revenues, were \$12,355 million and \$11,713 million in Fiscal Years 1998-99 and 1997-98, respectively. Total expenditures/expenses and financing uses, excluding operating transfers-out and the TABOR refund liability, were \$12,092 million and \$11,312 million for each of the same periods.

For Fiscal Year 1998-99, various fund equity accounts changed from the beginning of the fiscal year due to

differences between revenues, other financing sources, transfers-in, and expenditures, other financing uses, and transfers-out. The equity of the governmental fund types declined by \$128.5 million primarily due to a \$372.3 million decline in the General Fund, a \$69.2 million increase in the Special Revenue, and a \$174.4 million increase in the Capital Projects Fund. The General Fund decline was related to spending from fund balance and a \$116.5 million increase in the TABOR refund. The increase in the Special Revenue Fund was primarily related to increases in tax, license, permits, and fines revenue that were encumbered but not yet expended on highway projects. The increase in the Capital Projects Fund was primarily related to increased transfers-in from the General Fund that will be expended over the life of currently appropriated projects. The combined fund equities of the colleges and universities increased by \$261.7 million primarily related to increases in capital assets recorded in the Plant Funds. The Trust Fund equity increased by \$280.9 million primarily due to a change in generally accepted accounting principles that require the Employees Deferred Compensation Fund to be reported as an expendable trust fund rather than an agency fund.

# **GENERAL FUND ACTIVITIES**

The General Fund is the focal point in determining the state's financial position. This fund accounts for all revenues and expenditures that are not required by law to be accounted for in other funds. Revenues of the General Fund consist of two broad categories, general-purpose revenues and augmenting revenues. General-purpose revenues are taxes, fines, and other similar sources that are raised without regard to how they will be spent. Augmenting revenues consist of federal funds, transfers-in, cash fees and charges, or specific user taxes. Augmenting revenues are usually restricted as to how they can be spent.

In the CAFR, all statements depicting the General Fund in the General Purpose Financial Statements Section include general purpose and augmenting revenues and the related expenditures. The *Schedule of* 

Revenues, Expenditures, and Changes in General Fund Surplus, Budget and Actual, presented in the Combining Financial Statements and Schedules Section, includes only the general purpose revenues and expenditures supported by those revenues. Therefore, we use the General Fund Surplus Schedule to discuss budget variances.

The revised budget frequently varies from the original budget for several reasons. The department's submit their request for original budget nearly a year in advance of the fiscal year. Therefore, conditions may have changed during the time the legislature evaluates and finalizes the original budget. In addition, mandated programs may have overruns beyond the department's control. When this occurs, the legislature enacts a supplemental bill increasing the department's budget. Supplemental bills may also reduce a department's budget. In Fiscal Year 1998-99, the following significant variances occurred between original and revised general fund budget.

- The Department of Health Care Policy and Financing revised budget exceeded the original budget by \$8.8 million due to a \$7.2 million legislative supplemental and \$1.6 million budget transfer from the Department of Human Services for Medicaid matching funds. The Medicaid program expenditures are mandated for the receipt of related federal funds.
- The Department of Corrections revised budget was \$8.1 million less than the original budget due to a \$6.6 million negative supplemental to limit staff costs expenditures when construction delayed the opening of the Sterling Correctional Facility. The Department of Corrections also transferred \$2.4 million of spending authority to the Governor's Office for the Disaster Emergency Fund.
- The Governor's Office revised budget exceeded the original budget by \$4.3 million due to a \$1.9 million supplemental to verify Year 2000 computer-problem remediation efforts. The Governor's Office budget also increased due to the \$2.4 million transfer from the Department of Corrections for Disaster Emergency Fund expenditures.
- The Judicial Branch revised budget exceeded the original budget by \$3.4 million to cover additional case load costs related to mandated representation in an increasing number of death penalty cases. Increasing discovery costs also contributed to the need for increased spending authority.
- The Department of Revenue's revised budget exceeded its original budget by \$1.8 million reflecting a supplemental appropriation for computer software upgrading and programming to address Year 2000 tax processing issues. The supplemental became necessary when the Department of Revenue determined that a new system to replace the individual income tax system would not be available in time.

In Fiscal Year 1998-99, the following significant variances occurred between the revised general fund budget and the actual expenditures:

- The Department of Health Care Policy and Financing general fund expenditures exceeded the
  revised budget by \$11.0 million due to increases in Medicaid medical services costs. A similar
  overexpenditure of federal Medicaid funds resulted in a total overexpenditure of \$22.4 million.
  The department is statutorily allowed unlimited Medicaid overexpenditures due to the
  mandatory nature of the program.
- The Department of Revenue revised budget exceeded actual expenditures by \$9.4 million. A special bill appropriation increasing spending authority for the Property Tax Rent Heat or

Fuel - Assistance for the Elderly or Disabled program accounted for \$6.7 million of this variance. The Act and the appropriation was effective January 1, 1999, but the expenditures for these increased tax credits will not occur until calendar year returns are filed in early Year 2000 (Fiscal Year 1999-00). Department expenditures for the Old Age Pension (OAP) program were \$1.2 million less than the revised budget. The OAP budget, which the State Constitution continuously appropriates at an amount necessary to make payments to qualifying recipients, was inaccurately estimated.

• The Department of Corrections revised budget exceeded actual expenditures by \$7.1 million due to reduced staff and service costs related to delays in completion of the Sterling Correctional Facility and a reduction in the size of the Four Mile Correctional Center. In addition, reduction in the number of inmates paroled resulted in lower parole caseload costs.

Beginning in Fiscal Year 1997-98, the state began allocating 10 percent of the General Fund sales and use tax revenues to the Highway Users Tax Fund (HUTF). These revenues, which amounted to \$170.4 million and \$154.6 million in Fiscal Years 1998-99 and 1997-98 respectively, are no longer recorded as general-purpose revenues.

# Individual Income Tax Sales, Use, & Insurance Tax Other Other

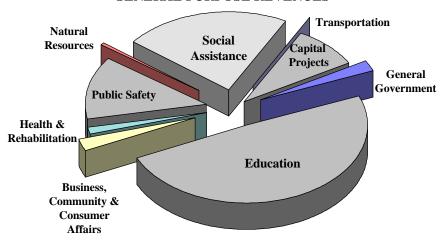
General-purpose revenues for Fiscal Years 1998-99 and 1997-98 were \$5,623 million and \$5,244 million, respectively, on the budgetary basis. Sales, use and excise taxes increased by \$143.1 million or 9.6 percent, and individual income taxes increased by \$275.1 million or 9.0 percent. These increases demonstrate the moderating but robust health of the Colorado economy. Other Taxes decreased by \$36.6 million or 28.0 percent moving toward the historical trendline unusually high estate tax receipts were recorded in Fiscal Year 1997-98.

On the budgetary basis and excluding the TABOR refund, total expenditures and transfers-out funded from general-purpose revenues during Fiscal Years 1998-99 and 1997-98 were \$5,279.1 million and \$4,724.0 million, respectively (see page 97). The Departments of Education, Health Care Policy and Financing, Higher Education, and Human Services accounted for approximately 75.2 percent of all Fiscal Year 1998-99 general funded expenditures. Of the departments with substantial general funded expenditures, the Department of Corrections had the largest annual percentage increase over the previous year at 14.0 percent. This increase represents the cost of additional staffing and operations at new prisons.

The total annual increase in general funded expenditures is limited to six percent over the previous year with certain adjustments. The primary adjustments are for changes in federal mandates and lawsuits against the state. This limitation is controlled through the legislative budget process.

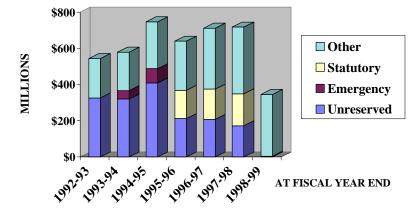
The "Unreserved" title, in the fund equity section of the General Fund on the Combined Balance Sheet of the General Purpose Financial Statements, relates to the

# EXPENDITURES BY FUNCTION FROM GENERAL PURPOSE REVENUES



accumulated net general-purpose revenues. The cumulative net augmenting revenues are represented as "Reserved for Other Specific Purposes." Augmenting revenues of the General Fund were \$2,234 million and \$2,128 million in Fiscal Year 1998-99 and 1997-98, respectively. Federal grants and contracts made up 87.1 percent and 87.8 percent of this amount in each respective fiscal year. The remainder is cash funds, which consist of revenues of specific programs that are statutorily restricted.

# RESERVED AND UNRESERVED GENERAL FUND FUND BALANCE



During Fiscal Years 1993-94 and 1994-95 a portion of the General Fund fund balance was reserved for emergencies as required by Article X, Section 20 (TABOR) of the State Constitution. Beginning with Fiscal Year 1995-96, a portion of the fund balance of the Controlled Maintenance Trust Fund is designated by the legislature as the TABOR emergency reserve.

Beginning in Fiscal Year 1995-96, the state controller reserved an amount equal to the statutorily required four percent of General Fund appro-

priation. Before that, the four- percent reserve was determined during the appropriation process but was not formally recognized in the financial statements. In Fiscal Year 1998-99, the required reserve was \$188.12 million; however, only \$4.85 million was available for this reserve on the generally accepted accounting principle basis. Legal compliance was achieved on the budgetary basis because the unrealized loss on investments of \$1.28 million is not recognized, and the Fiscal Year 1998-99 TABOR refund of \$679.63 million will not be recognized until it is paid in Fiscal Year 1999-00.

### PROPRIETARY OPERATIONS

Proprietary type funds are accounted for using the full accrual basis of accounting, as would a private business. Their operations have many of the attributes of a business in that their revenue relates to the provision of goods or services to the state or to the public. Capital investments of these operations are recorded within the fund and depreciation is recorded using methods similar to private enterprise. Proprietary funds consist of enterprise funds that provide services to the citizens of the state, and internal service funds that provide services to the state government.

The State Fair Authority, an enterprise fund, received \$1,874,038 of fixed assets from the General Fixed Assets Account Group. The State Nursing Homes, an enterprise fund, received \$39,923 of fixed assets funded by the Capital Construction Fund. The Public Safety Fund, an internal service fund, purchased an aircraft for \$499,900 that was funded by the Capital Projects Fund. The Highway Fund, a special revenue fund, transferred \$89,379 to the Highways Internal Service Fund.

Total fund equity for the proprietary funds at June 30, 1999 and June 30, 1998, was \$118.0 million and \$109.4 million, respectively – an increase of \$8.6 million. Operating revenues for the proprietary operations were \$701.4 million for Fiscal Year 1998-99 and \$685.3 million for Fiscal Year 1997-98. Operating expenses were \$609.5 million and \$640.8 million, respectively. During Fiscal Year 1998-99, the major transfers from the Lottery Fund were \$33.9 million to the Conservation Trust Fund and \$8.5 million to the Wildlife Fund. In addition, the Lottery Fund distributed \$42.3 million of net proceeds to the Great Outdoors Colorado Trust Fund, a constitutionally created public authority.

# **DEBT ADMINISTRATION**

The State Constitution prohibits the state from incurring any general obligation debt. However, the state issues revenue anticipation notes to meet short-term cash needs and certificates of participation under a master lease agreement to finance some capital projects. In addition, many higher education institutions have issued bonds and notes with revenues pledged from specific user payments to retire these bonds and notes. Additional information is provided in the footnotes to the general-purpose financial statements and the statistical section of this report.

### **CASH MANAGEMENT**

Statutes permit the state treasurer to invest cash not needed immediately to pay obligations of the state. These investments may consist of obligations of the United States, commercial paper of prime quality, repurchase agreements, bank acceptance agreements, and other investment instruments. The state treasurer also invests the funds of the Colorado Water Resources and Power Development Authority, a component unit, and the Great Outdoors Colorado Trust Fund. At June 30, 1999, the state treasurer held the following investments at fair value:

Investment Type	Amount in Millions	
United States Treasury and Agencies	\$	1,723.4
Asset Backed Securities		913.4
Corporate Bonds		643.4
Commercial Paper		484.8
Mortgages		301.4
Bankers' Acceptance		41.3
Total	\$	4,107.7

Included above is \$633.9 million belonging to the Colorado Compensation Insurance Authority that the state treasurer maintains in a separate investment trust fund. The financial statements of that fund are included in this report.

### RISK MANAGEMENT

The state self-insures its agencies, officials, and employees against the risk of loss related to general liability, motor vehicle liability, workers' compensation, and medical claims. The state uses the General Fund and the General Long-Term Debt Account Group to account for the risk management function including operations and for all claims or judgments except for employee medical claims. (See Notes I-E, IV-D, and IV-F to the General Purpose Financial Statements). Medical claims for officials and employees are managed through the State Employees and Officials Insurance Fund, an internal service fund. Property claims are not self-insured, as the state has purchased insurance. (See Note IV-F to the General Purpose Financial Statements.)

The Regents of the University of Colorado are self-insured for workers' compensation, auto, general and property liability, and employee and official's medical claims. A third party administers the university's medical claims under a contractual agreement. The university has also purchased stop-loss insurance for individual medical claims over \$500,000. (See Note IV-F to the General Purpose Financial Statements.)

### INDEPENDENT AUDIT

The audit of the General Purpose Financial Statements was performed by the state auditor. The opinion of the auditor is on page 28 of this report preceding the financial statements. Besides an audit of the statewide financial statements, the auditor will from time to time audit the financial statements and operations of various departments and institutions within state government.

In 1996, the United States Congress amended the Single Audit Act of 1984. The amended act clarifies the state's and the auditor's responsibility for ensuring that federal moneys are used and accounted for properly. Under the requirements of this act, transactions of major federal programs are tested. The state prepares a Schedule of Expenditures of Federal Awards for inclusion in the state auditor's Statewide Single Audit Report. The state auditor issues reports on the schedule, the financial statements, internal controls, and compliance with the requirements of federal assistance programs.

# CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state for the Fiscal Year 1997-98 Comprehensive Annual Financial Report. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

# **ACKNOWLEDGMENTS**

In conclusion, I thank my staff and the staffs of all the state departments and institutions whose time and dedication have made this report possible. I reaffirm our commitment to maintaining the highest standards of accountability in financial reporting.

Sincerely,

Arthur L. Barnhart State Controller

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

# State of Colorado

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1998

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



